

Economic Intelligence Memorandum

COMMUNIST CHINA'S IMPORTS OF GRAIN
1961-63



CIA/RR EM 63-20

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CENTRAL INTELLIGENCE AGENCY
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COMMUNIST CHINA'S IMPORTS OF GRAIN*
1961-63

Summary

Following the Communist takeover on the mainland in 1949, China exported over the next decade an average of approximately 1.5 million net tons** of grain annually as a means of paying for imports for its industrialization program. By 1961, however, as a result of poor grain harvests in 1959 and 1960 and the consequent food shortages, China had shifted its trade pattern from that of a net exporter of grain to that of a net importer.

A contract signed on 31 May 1963 for the purchase of 1.25 million tons of wheat from Australia brings China's total purchases of grain since the beginning of 1961 to about 17 million tons, of which retained imports total approximately 15 million tons. By the end of 1963 the total value of imports of grain since early 1961 may approximate \$1 billion.*** Most of the imports of grain have come from Canada and Australia, which through the end of 1962 had supplied about \$487 million out of total purchases of about \$688 million worth of grain.

The initial sales of grain to China were for cash, but in the latter part of 1961, because of a serious decline in its international reserves, China sought and obtained credit terms for purchases of grain from Canada and Australia. Since 1961, sales of grain to China have been made under various credit arrangements, with terms becoming progressively more liberal.

The large purchase of grain recently concluded with Australia and the contract now being negotiated with Canada for delivery in 1963 may be indicative of the regime's concern over prospects for the 1963 harvest.

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 15 June 1963.

** Tonnages are given in metric tons throughout this memorandum.

*** Dollar values in this memorandum are given in current US dollars.

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I. Introduction

In 1961, Communist China signed the first of many contracts for the import of food grains to help alleviate serious food shortages that began with poor crops in 1959 and 1960. Since then, the continuation of food shortages has required continued imports of grain. Between 1961 and the end of May 1963, China purchased, largely from Canada and Australia, a total of about 17 million tons of grain, approximately 15 million tons of which were for domestic consumption. These imports represented a major shift in the foreign trade pattern of China. During the 1950's, exports of agricultural commodities had been the regime's chief means of paying for the imports for its industrialization program.

Before World War II, China had been a net importer of grain, averaging imports of about 1.5 million tons annually during the period 1933 through 1937. However, during the period following the Communist conquest of the mainland, China had net exports of grain of about 1.5 million tons annually. This transformation of China from a net importer of grain before the Communist takeover to a net exporter was not brought about by increased availability. Per capita consumption of food continued below prewar levels. However, the need for foreign exchange to support the industrialization program necessitated the export of food commodities that could well have been utilized domestically.

II. Imports in 1961 and 1962

Grain imported by Communist China in 1962 is estimated to have totaled 5.3 million tons. Excluding about 300,000 tons reexported to Ceylon, Cuba, and Albania directly from the supplying country, the retained imports of 5 million tons were at least 500,000 tons less than in 1961 (see Table 1*).

Retained imports of grain by Communist China fell from 3.2 million tons in the first half of 1962 to 1.8 million tons in the second half, probably reflecting some improvement in the 1962 harvest. Shipments during both halves of 1961 were about the same -- that is, 2.7 million and 2.9 million tons, respectively (see Table 1*).

III. Imports in 1963

The purchase by Communist China of 1.25 million tons of wheat from Australia, which was announced on 31 May 1963, brings total purchases of grain for delivery in 1963 to about 5.0 million tons compared with

* P. 7, below.

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5.3 million and 6.3 million tons in 1962 and 1961, respectively. However, China at present is negotiating for further purchases of grain from Canada that could raise purchases during 1963 above the high level of 1961. It is believed that a greater proportion of the negotiations for purchases thus far in 1963 are for grain that will be consumed domestically than was the case in either 1961 or 1962, when 727,000 and 303,000 tons, respectively, were reexported to other destinations (see Table 2*).

About 3.6 million of the 5.0 million tons of grain contracted for shipment in 1963 are scheduled for delivery during the first half of the year (see Table 1**). The 3.5 million tons of wheat to be imported by China in the first half of 1963 is larger than the total quantity of wheat imported in the same period of either 1961 or 1962 (see Table 1**).

In spite of official claims of a slightly better grain harvest in 1962 than in the previous year, the regime has shown no tendency to cut back purchases in 1963. The recent large purchase and current negotiations may reflect concern over harvest prospects in 1963.

IV. Composition of Imports

Wheat, by far the major component in Communist China's imports of grain during the period 1961 through May 1963, has been increasing in importance both in quantity imported and as a percentage of total imports of grain. Barley accounted for more than 20 percent of total imports of grain in 1961, but since that time no single type of grain other than wheat has accounted for as much as 10 percent (see Table 3***).

V. Financing of Imports

To finance these purchases of grain,[†] Communist China for the first time was forced to obtain substantial commercial credits from the West to avoid exhausting its foreign exchange reserves. China's initial purchases of grain in the first half of 1961 were on a cash basis, but these imports, amounting to about \$130 million, caused a sudden and serious deterioration in China's international accounts with the West. To pay for subsequent imports of wheat, China has negotiated extensive short-term credits from various Western sources. Western producers of grain (or their governments in some cases) have been willing to extend credit in order to sell a large part of their surpluses to China.

* P. 10, below.

** P. 7, below.

*** P. 12, below.

† For data on the value of China's imports of grain, see Tables 4 and 5, pp. 13 and 14, respectively, below.

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The West extended credits of about \$361 million for 1961 and 1962, \$127 million in 1961 and \$234 million in 1962. The strain on Communist China's balance of payments, however, was much less in 1961, when net credits amounted to \$125 million, than in 1962, when extensive Chinese repayments reduced the net credits to \$22 million, as shown in the following tabulation. An advance settlement in December 1962 of \$29 million of credits due in the following year,* however, reduced the credits outstanding at the end of 1962 to \$147 million. Repayment of the remaining credits will fall in succeeding years. In addition to these commercial credits, China financed nearly half of its imports of rice from Burma in 1961 by accumulating a \$20 million credit in its clearing account. This credit arose because Burma failed to import an equivalent amount of Chinese goods. China has not yet repaid this credit.

Million US \$			
<u>Year</u>	<u>Credits Extended to China</u>	<u>Credits Repaid by China</u>	<u>Net Credits</u>
1961	127	2	125
1962	234	212	22
Total	<u>361</u>	<u>214</u>	<u>147</u>

In 1963, Communist China's new credits probably again will exceed its payments. Repayment of credits outstanding at the end of 1962 will total \$137 million (repayment of \$10 million has been deferred to 1964), whereas new credits may increase to as much as \$200 million, depending on the volume of grain imported, credit terms, and prepayments.

The cost of these credits as measured by the interest payments is relatively insignificant in comparison with total international payments. At the interest rate of 5.5 percent that has been reported for the first Canadian credit contracts as the average interest rate for all credits, interest costs in 1962 amounted to about \$7 million, less than 2.5 percent of the value of all Chinese imports of grain for that year.

* Because of its continuing dependence on exports of agricultural products, which are harvested and marketed largely during the fall and winter months, China accumulates during this period large foreign exchange balances, which will be drawn down in the spring and summer months. As its international financial position has been temporarily stabilized, China may have diverted some of these balances from investments earning a relatively small amount of interest to the prepayment of credits bearing a considerably higher interest rate.

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Payment terms have enabled Communist China to defer the bulk of its payments for imports of grain for periods of from 6 to 18 months. During 1961 and most of 1962, Western credits were extended largely on a short-term basis, with a downpayment of 10 to 25 percent and the remainder payable within 6 to 12 months. For example, Canadian bankers required a payment of 25 percent at the time of shipment with the balance payable in 9 months, whereas Australian bankers offered slightly more favorable terms through a complicated payment schedule calling for the payment of 10 percent at the time of shipment, 40 percent in 6 months, and the remaining 50 percent in 1 year. Late in 1962, most Western lenders extended the repayment period by a few months. Australian bankers changed the payment schedule slightly, permitting half of the repayment originally due in 6 months to be paid in 9 months. Canadian bankers extended the repayment period to 1 year, thereby providing as favorable terms as the Australians. French bankers, however, by extending the time period allowed for repayment from 1 year to 18 months have become the first to extend intermediate-term financing.

Although Communist China has pressed for even longer term credits than those now extended by France, few banks without government backing are able to provide anything other than short-term credits. The Canadian government has insured credits to other Communist countries for a period of 3 years but so far has been unwilling to insure credits extended to China for more than 1 year. Australian and West German banks cannot obtain government insurance for any credits extended to China. French bankers who can obtain government insurance provide the same credit terms -- 18 months -- to all countries importing French grain.

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Table 1

Communist China: Retained Imports of Grain a/*
1961-63

Thousand Metric Tons						
	<u>Wheat</u>	<u>Flour</u> <u>b/</u>	<u>Barley</u>	<u>Corn</u>	<u>Other</u>	<u>Total</u>
	<u>1961</u>					
First half						
Free World	1,749	63	550	29	120	2,511
Argentina				29		29
Australia	1,107	53	209		65	1,434
Canada	642		314			956
France			27			27
West Germany		10				10
Burma					55	55
USSR <u>c/</u>	50	61			50	161
Subtotal	<u>1,799</u>	<u>124</u>	<u>550</u>	<u>29</u>	<u>170</u>	<u>2,672</u>
Second half						
Free World	1,760	250	687	4	12	2,713
Argentina				4		4
Australia	977		137		12	1,126
Canada	783		347			1,130
France		33	203			236
West Germany		217				217
USSR <u>c/</u>	51	62			50	163
Subtotal	<u>1,811</u>	<u>312</u>	<u>687</u>	<u>4</u>	<u>62</u>	<u>2,876</u>
Total	<u>3,610</u>	<u>436</u>	<u>1,237</u>	<u>33</u>	<u>232</u>	<u>5,548</u>

* Footnotes for Table 1 follow on p. 9.

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Table 1

Communist China: Retained Imports of Grain a/
 1961-63
 (Continued)

Thousand Metric Tons						
	<u>Wheat</u>	<u>Flour ^{b/}</u>	<u>Barley</u>	<u>Corn</u>	<u>Other</u>	<u>Total</u>
	<u>1962</u>					
First half						
Free World	2,364	163	276	206	38	3,047
Argentina	88			206		294
Australia	976	1			38	1,015
Canada	1,182		192			1,374
France	118	39	84			241
West Germany		123				123
USSR <u>c/</u>	50				125	175
Subtotal	<u>2,414</u>	<u>163</u>	<u>276</u>	<u>206</u>	<u>163</u>	<u>3,222</u>
Second half						
Free World	1,173	105	51	253	40	1,622
Argentina	98			170	23	291
Australia	207				17	224
Canada	624		11			635
France	244		40			284
West Germany		105				105
Rhodesia				58		58
South Africa				25		25
USSR <u>c/</u>	50				125	175
Subtotal	<u>1,223</u>	<u>105</u>	<u>51</u>	<u>253</u>	<u>165</u>	<u>1,797</u>
Total	<u>3,637</u>	<u>268</u>	<u>327</u>	<u>459</u>	<u>328</u>	<u>5,019</u>

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Table 1

Communist China: Retained Imports of Grain a/
 1961-63
 (Continued)

Thousand Metric Tons						
	<u>Wheat</u>	<u>Flour</u> <u>b/</u>	<u>Barley</u>	<u>Corn</u>	<u>Other</u>	<u>Total</u>
	1963					
First half <u>d/</u>						
Australia	1,855					1,855
Canada	900		22			922
France	705					705
West Germany		23				23
South Africa				140		140
Subtotal	<u>3,460</u>	<u>23</u>	<u>22</u>	<u>140</u>		<u>3,645</u>
Second half <u>d/</u>						
Australia	1,250					1,250
Subtotal	<u>1,250</u>					<u>1,250</u>
Total	<u>4,710</u>	<u>23</u>	<u>22</u>	<u>140</u>		<u>4,895</u>

a. Total grain purchased minus reexports.

b. Converted to a wheat equivalent basis (82 percent extraction rate).

c. Estimated to have been about evenly divided between the first and second half of 1961 and 1962.

d. On the basis of contracts signed through 31 May 1963.

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Table 2

Communist China: Imports of Grain for Reexport
1960-63

	Thousand Metric Tons			
	<u>Wheat</u>	<u>Corn</u>	<u>Rice</u>	<u>Total</u>
Second half of 1960 <u>a</u> /*				
Australia	10			10
France	29			29
Total for 1960	<u>39</u>			<u>39</u>
First half of 1961				
Argentina		10		10
Australia	18			18
Canada	51			51
France		8		8
Burma			125	125
Subtotal	<u>69</u>	<u>18</u>	<u>125</u>	<u>212</u>
Second half of 1961				
Canada	324			324
Burma			191	191
Subtotal	<u>324</u>		<u>191</u>	<u>515</u>
Total for 1961	<u>393</u>	<u>18</u>	<u>316</u>	<u>727</u>
First half of 1962				
Canada	47			47
France		N.A.		N.A.
Burma			100	100
Subtotal	<u>47</u>		<u>100</u>	<u>147</u>
Second half of 1962				
Canada				
France	56			56
Burma			100	100
Subtotal	<u>56</u>		<u>100</u>	<u>156</u>
Total for 1962	<u>103</u>		<u>200</u>	<u>303</u>

* Footnotes for Table 2 follow on p. 11

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Table 2

Communist China: Imports of Grain for Reexport
1960-63
(Continued)

Thousand Metric Tons				
	<u>Wheat</u>	<u>Corn</u>	<u>Rice</u>	<u>Total</u>
First half of 1963 <u>b/</u>				
Burma			100	100
Total			<u>100</u>	<u>100</u>

- a. Imports during the first half of 1960 were negligible.
b. On the basis of contracts signed through 31 May 1963.

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Table 3

Communist China: Composition of Retained Imports of Grain a/
1961-63

	1961		1962		1963 <u>b/</u>	
	Thousand Metric Tons	Percent of Total Grain	Thousand Metric Tons	Percent of Total Grain	Thousand Metric Tons	Percent of Total Grain
Total grain	<u>5,548</u>	<u>100</u>	<u>5,019</u>	<u>100</u>	<u>4,895</u>	<u>100</u>
Wheat	3,610	65	3,637	72	4,710	95
Flour <u>c/</u>	436	8	268	5	23	1
Barley	1,237	22	327	7	22	1
Corn	33	1	459	9	140	3
Other <u>d/</u>	232	4	328	7	0	0

- a. Total grain purchased minus reexports.
b. On the basis of contracts signed through 31 May 1963.
c. Converted to a wheat equivalent basis (82 percent extraction rate).
d. Including oats, rice, sorghum, and rye.

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Table 4

Communist China: Value of Annual Imports of Grain a/
1961-62

	Million US \$					
	<u>Wheat</u>	<u>Flour</u>	<u>Barley</u>	<u>Corn</u>	<u>Other</u>	<u>Total</u>
	1961					
Free World	225.1	14.9	53.1	2.4	37.6	333.2
Argentina				2.1		2.1
Australia	111.7	3.2	15.8		3.0	133.6
Burma					34.6	34.6
Canada	113.4		28.0			141.4
France		1.4	9.4	0.4		11.1
West Germany		10.4				10.4
USSR	7.1	9.0			5.5	21.6
Total	<u>232.2</u>	<u>23.9</u>	<u>53.1</u>	<u>2.4</u>	<u>43.1</u>	<u>354.8</u>
	1962					
Free World	236.2	14.6	18.5	22.4	24.6	316.3
Argentina	11.9			19.2 <u>b/</u>		31.1 <u>b/</u>
Australia	67.9	Negl.			2.6	70.5
Burma					22.0	22.0
Canada	129.5		12.1			141.6
France	26.9	2.4	6.4			35.7
West Germany		12.2				12.2
Rhodesia				2.2		2.2
South Africa				1.0		1.0
USSR	6.0				11.0	17.0
Total	<u>242.2</u>	<u>14.6</u>	<u>18.5</u>	<u>22.4</u>	<u>35.6</u>	<u>333.3</u>

a. Because of rounding, components may not add to the totals shown.

b. Including sorghum.

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Table 5

Communist China: Value of Imports of Grain
1961-62

	Thousand US \$					
	<u>Wheat</u>	<u>Flour</u>	<u>Barley</u>	<u>Corn</u>	<u>Other</u>	<u>Total</u>
	1961					
First half						
Free World	102,502	3,539	24,287	2,216	19,331	151,875
Argentina				1,843		1,843
Australia	58,491	3,164	9,605		2,537	73,797
Burma					16,794	16,794
Canada	44,011		13,524			57,535
France			1,158	373		1,531
West Germany		375				375
USSR	3,500	4,500			2,750	10,750
Total	<u>106,002</u>	<u>8,039</u>	<u>24,287</u>	<u>2,216</u>	<u>22,081</u>	<u>162,625</u>
Second half						
Free World	122,640	11,398	28,825	213	18,279	181,355
Argentina				213		213
Australia	53,220		6,171		446	59,837
Burma					17,833	17,833
Canada	69,420		14,438			83,858
France		1,389	8,216			9,605
West Germany		10,009				10,009
USSR	3,600	4,500			2,750	10,850
Total	<u>126,240</u>	<u>15,898</u>	<u>28,825</u>	<u>213</u>	<u>21,029</u>	<u>192,205</u>

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Table 5

Communist China: Value of Imports of Grain
1961-62
(Continued)

	Thousand US \$					
	<u>Wheat</u>	<u>Flour</u>	<u>Barley</u>	<u>Corn</u>	<u>Other</u>	<u>Total</u>
	<u>1962</u>					
First half						
Free World	153,515	8,578	15,166	9,900	12,800	199,959
Argentina	5,630			9,900		15,530
Australia	56,014	1			1,800	57,815
Burma					11,000	11,000
Canada	83,853		11,479			95,332
France	8,018	2,393	3,687			14,098
West Germany		6,184				6,184
USSR	3,000				5,500	8,500
Total	<u>156,515</u>	<u>8,578</u>	<u>15,166</u>	<u>9,900</u>	<u>18,300</u>	<u>208,459</u>
Second half						
Free World	82,714	6,055	3,357	12,450	11,800	116,376
Argentina	6,290			9,300 a/		15,590 a/
Australia	11,901				800	12,701
Burma					11,000	11,000
Canada	45,612		650			46,262
France	18,911		2,707			21,618
West Germany		6,055				6,055
Rhodesia				2,200		2,200
South Africa				950		950
USSR	3,000				5,500	8,500
Total	<u>85,714</u>	<u>6,055</u>	<u>3,357</u>	<u>12,450</u>	<u>17,300</u>	<u>124,876</u>

a. Including sorghum.

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